

May 6, 2010

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PUBLIC UTILITIES
COMMISSION

HAND DELIVER

The Honorable Chairman and Members of
the Hawaii Public Utilities Commission
465 South King Street
Kekuanaoa Building, Room 103
Honolulu, Hawaii 96813
Attention: Michael Azama, Esq.

Re: Docket No. 2009-0048 –Molokai Public Utilities, Inc. ("MPU")
Notice of Settlement with the Division of Consumer Advocacy

Dear Commissioners and Commission Staff:

The evidentiary hearing on MPU's request for a rate increase is scheduled to commence on Tuesday, May 11, 2010. On May 3, 2010, the Division of Consumer Advocacy ("Consumer Advocate") submitted a proposal to the parties¹ in an effort to fully settle this rate case for purposes of both interim and final rate relief. After reviewing the terms of the Consumer Advocate's settlement proposal and obtaining clarification on a couple of terms, MPU is pleased to announce that it has reached full settlement of the outstanding rate case issues with the Consumer Advocate.

Attached for the Commission's consideration is a worksheet that shows the comparative net operating income and results of operation for MPU, including a total revenue requirement of \$982,336 resulting from the settlement proposal.² Included are the various adjustments which MPU agreed with the Consumer Advocate. Also attached is a two-page summary entitled "Principles of Settlement—Consumer Advocate Best and Final Offer" which outlines the key agreements supporting the adjustments, as well as additional terms and conditions which MPU agreed upon. On the assumption that agreement is not reached with the other parties prior to the

¹ In addition to MPU and the Consumer Advocate, the other parties to this proceeding are West Molokai Association and the County of Maui.

² MPU will be filing with the Commission today a supplemental response to WMA-SIR-114 to correct certain information that was inadvertently not included in the pro forma test year revenue for MPU. This correction does not change the overall revenue requirement of \$982,336 shown on the comparative net operating income schedule, but the revenue increase will be lower. MPU will submit a revised worksheet that reflects the changes from the supplemental response upon concurrence by the Consumer Advocate.

commencement of the evidentiary hearings next week, unless otherwise required by the Commission, MPU and the Consumer Advocate intend to provide the specific details of their settlement in the post-hearing briefs that will be filed pursuant to the Prehearing Conference Order.

MPU notes that while agreement has not yet been reached with West Molokai Association and the County of Maui, a final mediation session with Dispute Prevention & Resolution, Inc. has been scheduled for tomorrow at noon for purposes of attempting to possibly settle some or all of the issues which these other parties may have. It is our hope that this final mediation session will assist in further simplifying the issues in this proceeding and/or aiding the efficient disposition of this proceeding including the forthcoming evidentiary hearing. MPU will inform the Commission on Monday, May 10, 2010 on the status of the settlement discussions and whether any agreement has been reached.

On behalf of MPU, we appreciate the Commission's patience in this matter. Please feel free to contact us should you have any questions. Thank you.

Very truly yours,



Michael H. Lau
Yvonne Y. Izu

Morihara Lau & Fong LLP
Attorneys for Molokai Public Utilities, Inc.

cc: Consumer Advocate
Margery Bronster, Esq. (COM)
William W. Milks, Esq. (WMA)
James J. Bickerton, Esq. (MPL)
Peter Nicholas

Molokai Public Utilities, Inc
Company and Consumer Advocate Comparison
Test Year Ending June 30, 2010

Line #		[1] As Filed	[2] Adjustments	[3] Adjustments	[4] Revised Proposed Rates	[5] MPU Settlement Adjustment	[6] MPU Settlement	[7] Difference	[8] Consumer Advocate Settlement	[9] Consumer Advocate Settlement Adjustment	[10] Consumer Advocate At Proposed Rates
REVENUE											
1	Monthly Customer Charge	\$ 160,656	(\$540)	\$ (15,667)	\$ 144,449	(18,107)	\$ 126,342	\$ -	\$126,342	\$14,980	\$111,362
2	Water Usage Charge	1,164,241	277	(113,533)	1,050,985	(196,291)	854,694	-	854,694	108,619	746,075
3	Additional Settlement Adj						-	-	0		
4	Late Fees	1,200	100		1,300	-	1,300	-	1,300		1,300
5							-				
6	Total Operating Revenues	1,326,097	(163)	(129,200)	1,196,734	(214,398)	982,336	0	982,336	123,599	858,737
EXPENSES											
7	Labor, PR Tax & Empl Bene	209,865	(15,980)		193,885	(28,577)	165,308	-	165,308		165,308
8	Electricity Expense	282,524		(128,675)	153,849	37,861	191,710	-	191,710	58,271	133,439
9	Fuel Expense	231,067		(31,180)	199,887	(17,872)	182,015	-	182,015	11,774	170,241
10	Dept of Agriculture	144,456	(7,959)		136,497	0	136,497	-	136,497	(7,959)	144,456
11						0	-				
12	Materials & Supplies	85,583			85,583	(37,947)	47,636	-	47,636	33,626	14,010
13	Affiliated Charges	9,600			9,600	0	9,600	-	9,600		9,600
14	Prof & Outside Services	14,137			14,137	0	14,137	-	14,137		14,137
15	Repairs & Maintenance	65,812			65,812	0	65,812	-	65,812		65,812
16						0	-				
17	Insurance	13,000			13,000	0	13,000	-	13,000		13,000
18	Regulatory Expense	55,000	70,794		125,794	(50,794)	75,000	-	75,000	20,000	55,000
19	General & Administrative	13,318			13,318	0	13,318	-	13,318		13,318
20	Total O&M Expenses	1,124,362	46,855	(159,855)	1,011,362	(97,329)	914,033	0	914,033	115,712	798,321
21	Taxes, Other Than Income	84,671	(10)	(8,249)	76,411	(13,689)	62,722	0	62,722	7,892	54,830
22	Depreciation	92,479	(8,001)		84,478	(78,891)	5,587	-	5,587		5,587
23	Income Taxes	4,607	(4,607)		0		-	-	0		
24	Diff due to changing factors								(6)		
25	Total Operating Expenses	1,306,119	34,237	(168,104)	1,172,251	(189,909)	982,342	0	982,336	123,604	858,738
26	Operating Income	\$19,978	(\$34,400)	\$38,904	\$24,483	(\$24,489)	(\$6)	(\$0)	\$0	(\$5)	(\$1)
AVERAGE RATE BASE											
27	Plant in Service	\$ 6,583,033			\$ 6,583,033	\$ (40,000)	\$ 6,543,033	\$ -	6,543,033		\$ 6,543,033
28	Accumulated Depreciation	(5,469,451)	4,001		(5,465,450)		(5,465,450)	(1,014,141)	(6,479,591)		(6,479,591)
29	Net Plant	1,113,582	4,001		1,117,583	(40,000)	1,077,583	(1,014,141)	83,442	-	63,442
30											
31	Customer Deposits	(10,691)			(10,691)		(10,691)	-	(10,691)		(10,691)
32	ADIT	0			0		-	-	0		-
33	HCGETC	(199,317)	199,317		0	(199,531)	(199,531)	-	(199,531)		(199,531)
34	Working Capital	92,587	(9,417)		83,170	(8,111)	75,059	0	75,060	9,643	65,417
35	Average Rate Base	\$ 996,161	\$ 193,901	\$ -	\$ 1,190,062	\$ (247,842)	\$ 942,220	\$ (1,014,141)	\$ (71,720)	\$ 9,643	\$ (81,363)
36	Return on Rate Base	2.01%			2.06%						

CONFIDENTIAL – PREPARED IN SUPPORT OF SETTLEMENT NEGOTIATIONS

Principles of Settlement – Consumer Advocate Best and Final Offer:

1. The parties agree to properly reflect the revenues that should have been reflected in the Company's application related to treated non-potable water sales to WOMI.
2. The parties agree to the removal of the wage increase and a 50% reduction of the total employee benefits costs that is paid by the Company. This results in a total expense of \$165,308.
3. Electricity and Fuel Adjustment Clause will not be allowed, but the parties will agree to use an average of the data from the 3 most recent years, if available, for the average price per unit. Additionally, the parties agree that for purposes of this rate proceeding, the total system lost and unaccounted for water factor of 15% will be used. This results in electricity charges of \$191,710 and fuel charges of \$182,015, for a total of \$373,726.
4. Along with the agreement of using 15% as the overall system lost and unaccounted for water factor, MPUI agrees that it will identify cost effective means by which to address the current unaccounted for and water loss situation. MPUI's plan and progress reports will be filed with the Commission and the Consumer Advocate.
5. The parties agree to use the most recent data for the Molokai Irrigation System charges, which includes the recent Dept. of Agriculture letter indicating that there was an overcharge. This results in a normalized estimate of \$136,497.
6. The parties agree to use a three year average of the direct expenses recorded by MPUI and 50% of the three year average of the MPL expenses allocated to MPUI. This agreement is predicated upon MPUI's agreement that a study (e.g., management audit, time and motion study, etc.), conducted at the Commission's supervision, designed to evaluate and determine the proper allocation procedures and factors will be completed to be used in the next rate proceeding. The cost of this study will be split between ratepayers and shareholders, where 50% of the allowable costs can be included for amortized recovery in the next rate proceeding.
7. The parties agree that the Company may recover an amortized amount of \$75,000 for regulatory expenses.
8. The parties agree that there shall be no rate of return in this rate proceeding.
9. The parties agree that, with the understanding that there shall be no rate of return in the instant rate proceeding, the effect of rate base on rates is diminished. Further, given the surrounding questions concerning the supporting records for the plant-in-service items, there shall be \$5,587 of depreciation expense on a net plant-in-service balance of \$63,442.
10. The parties agree that, given the remaining questions about the reconciliation between the book and tax records supporting the plant items, there shall be no accumulated deferred income tax balances and Hawaii State Capital Goods Excise Tax Credits.
11. The parties agree that the Company shall complete a thorough evaluation of its records and record-keeping practices that shall, at a minimum, determine whether plant items have been written off and to reconcile the outstanding differences between its book and tax records. For

any plant item that MPUI seeks to recover in future rate proceedings, adequate records with the proper reconciliation and supporting documents for tax/book differences shall be provided.

12. MPUI agrees to provide quarterly status reports to the Commission and the Consumer Advocate on the progress with recertifying and obtaining proper access rights to both Well 17 and the MIS and provide a commitment that all such necessary work shall be completed before the next rate proceeding.
13. The parties agree that there shall be phase-in plan that allows the agreed upon rate increase to be implemented in steps occurring over two increases – the first step increase occurring at the time of the Commission’s approval by which the phase-in of the increase will be calculated off the Commission’s approved rates pursuant to Decision and Order No. 20342, filed on July 18, 2003, as amended by Order No. 20356, filed on July 31, 2003, in Docket No. 02-0371, but any such phase-in may consider the temporary rates currently in effect and the second step to occur 6 months after the initial increase.
14. MPUI agrees to conduct a cost of service study (“COSS”) prior to the next rate. As part of MPUI’s agreement to conduct a COSS, the parties agree that there should be no adjustment for the “excess capacity” adjustment described in the Consumer Advocate’s direct testimony, but that the issue of properly allocating capacity to each customer class and meters will be addressed appropriately by the COSS.
15. [With respect to the rate design, the parties agree that the agreed upon increase will be implemented on an “across-the-board” basis. However,]the Company shall keep and maintain adequate and sufficient records to support a rate design proposal in the next rate proceeding that addresses, at a minimum, the proper allocation of costs among fixed (including monthly meter and standby charges) and variable rates (including the establishment of inclining tiered usage rates).